

City of Mesa Deferred Compensation Committee
Meeting Minutes
Monday, February 2, 2012
11:30AM
Mesa City Plaza Conference Room 130

Committee Members:

Present:

Patricia Sorensen (Chair)
Chuck Odom (Chair)
Derek Witting
Don Miller
Frank Hogle
Jayson Vowell
Mary Dellai
Matt Rexing
Michael Claspell
Michelle Long

Absent:

None

Innovest:

Gordon Tewell
Jerry Huggins

Great West:

Scott Taylor

Other(s):

Bill Taebl

The meeting was called to order at 11:30 a.m. by Patricia Sorensen.

1. Discussion of any changes to minutes. Minutes from 11/07/2011 not available at this time. Will need to approve at future committee meeting.
2. Innovest gave general review of 4th Quarter 2011. Jerry Huggins highlighted the financial trends for the quarter in the Headwinds/Tailwinds.

Annual Fee Review (activity 10/01/2010 – 09/30/2011): estimated investment, recordkeeping, and administrative costs of 0.61% compare favorably to 401(k) data of similar sized plan with an average cost of 1.00%. Total estimated costs (includes 3rd party fees) is 0.68%. Average plan assets were \$114,109,036.

Gordon Tewell led discussion on fees retained by funds and revenue sharing with plan provider (GWRS) and plan (COM). The annual fee review showed estimated rebate (revenue) to plan of \$76,511. Third party fees (expenses) totaled \$81,500. As annual expenses are greater than revenues, dividends are not expected for participants.

Specific Plan Investment Review

- Watch List: Fidelity Contrafund, Rainer Large Cap, Davis NY Venture, Janus Perkins Mid Cap, Keeley Small Cap, Oppenheimer Global
- Fund Analysis: Fidelity Contrafund – Style Consistency, Asset Base
Ranier Large Cap Equity – Performance
Davis NY Venture - Performance
Allianz NFJ Dividend Value – Performance
Janus Perkins Mid Cap Value – Asset Base
Keeley Small Cap – Asset Base, Performance, Overall

Oppenheimer Global - Organization
American Funds EuroPacific – Asset Base
GreatWest Fixed Portfolio – Philosophy and Process

All listed as minor concerns.

Small Cap Value Fund search: Committee asked Innovest to prepare search for possible replacement of Keeley Small Cap due to consistent concerns of the fund's performance.

Jerry Huggins led analysis of two funds presented as possible replacements: Diamond Hill Small Cap and Cambiar Small Cap. Fund analysis shows no concerns for these funds. Keeley has concerns in Asset Base (large for average small cap fund), Performance (has fallen to bottom quartile over the last 3 and 5 year periods) and Overall (sector concentration and biases).

Peer Group Analysis: Cambiar consistently outperforms both Keeley and Diamond Hill (top ten percentile for both 3 and 5 year return)

Fund	3 Year	5 Year
Keeley	12.43 (88)	-1.84 (80)
Diamond Hill	13.75 (81)	0.94 (33)
Cambiar	24.79 (4)	3.55 (7)

Other Factors: Revenue sharing and expense information. Difference in revenue sharing should not be an issue (difference in revenue sharing between Keeley and Cambiar is estimated to be \$3,947 annually). Committee should look for best return for participants. Expenses are comparable across the different funds. One negative is that Cambiar does have redemption fee of 0-90 days; 2%. Would affect participants transferring funds out of investment and would require waiting period to avoid 2% charge.

Fund	Revenue Sharing	Prospectus Net Expense Ratio	Net Expense
Keeley	0.40%	1.36%	0.96%
Diamond Hill	0.00%	1.00%	1.00%
Cambiar	0.10%	1.08%	0.98%

Motion to amend class by replacing Keeley Small Cap Value fund with Cambiar Small Cap Value made by Derek Witting, seconded by Matt REXING. Scott Taylor, GreatWest Client Representative, will work on process to replace Keeley with Cambiar. This process should take place in approximately 60 days.

3. GreatWest update by Scott Taylor. GWRS offered to manage COM plan document at no cost to COM. This includes updates and amendments to the plan document to keep it current. Innovest questions whether GWRS would accommodate IRS approval process in the future? Add to agenda for next meeting. Provide copy to Bill Taebel for legal review of document.

Scott provided report of the average participant balance by age group to ensure current participants can get value out of account at retirement. Average balance for participants is \$43,259. Average balance for age group 56-58 is \$74,279 which, if withdrawn monthly for 30

years earning 5%, would provide participant approximately \$400 gross per month to supplement retirement.

Update on beneficiary issue. Only 200 or so participants do not have a beneficiary listed. Scott will continue to address on a person to person basis as he meets with individuals.

4. Other Issues:

- Next meeting tentatively scheduled for May 7th at 11:30 a.m.
- Patricia Sorensen is retiring on 03/30/2012. Committee Chair duties will be assigned to Chuck Odom.

5. Innovest – discussion on change to COM Investment Policy Statement to include corporate investments for Stable Value Fund.

Current policies

- Investment quality – securities issued by US government and agencies and commercial bank securities with FDIC guarantees.
- Duration not exceed 5 years
- 100% liquidity

Change to IPS would allow more flexibility and benefit fund by having more diversification, allow manager to take advantage of market opportunities (increasing interest rate environment), and possible higher credit rating. Change should maintain quality of investments, adequate liquidity, and participant interest rates that move in direction of prevailing rates.

Motion to amend COM investment policy to allow up to a maximum of 15% be invested in commercial paper, corporate bonds, foreign government bonds or asset backed securities and maintain a weighted average portfolio of AA+ or better made by Matt Rexing, seconded by Michelle Long.